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IN REPLY
REFER TO AQ

MEMORANDUM FOR COMMANDERS, DEFENSE CONTRACT MANAGEMENT
DISTRICTS
COMMANDER, DEFENSE CONTRACT MANAGEMENT
COMMAND INTERNATIONAL

SUBJECT: Adoption of Common Processes at Defense Contractor Facilities

The adoption of common processes by contractors in lieu of multiple, unique DoD standards and specifications is one of the cornerstones of acquisition reform. Recently issued letters by Secretary Perry and Under Secretary Kaminski underscore the importance of accelerating this shift toward facility-wide common processes (Attachment 1). DCMC will play a pivotal role in this major initiative by both encouraging contractors to submit common process proposals and expediting their review and approval.

Common processes are intended to help reduce contractor operating costs, and contribute to cost, schedule, and performance benefits for the Government. Unlike traditional contract specific changes, process changes are intended to cross all contracts at a particular facility. For this reason, and although it is clear that both the Government and contractors can mutually benefit from the adoption of common processes, the review and approval of contractor process change proposals require special technical and cost consideration. Attachment 2 provides further guidance in each of these two areas.

Critical to the success of this effort are communication and coordination with customer buying activities and program management offices. Cost-benefit analysis must be fully explored and coordinated in order to build consensus among all parties on the concept. Each field office should establish a Management Council comprised of contractor, DCMC, DCAA, and key customer representatives in order to facilitate a timely and constructive exchange of information. The field office should work closely with the Management Council to ensure that the concept paper contains sufficient technical and cost information to permit adequate evaluation.

To help promote this initiative and also assist ACOs and other DCMC functional specialists in the review of contractor proposals, we are establishing a Block Change Management Team at HQ DCMC. A draft charter for this team is at Attachment 3. Among other tasks assigned to the team are the development of a "Road Show" package for conducting briefings across the Command, and the establishment of field level SWAT teams that will be available to assist ACOs in reviewing common process proposals.

Should there be any questions, the point of contact is Mr. Frank J. Lalumiere. He can be reached at (703) 767-2412 or DSN 427-2412.

A handwritten signature in black ink, appearing to read "Robert W. Drewes", with a stylized, flowing script.

ROBERT W. DREWES

Major General, USAF
Commander

Attachments

Common Process Block Changes

A block change is a contract modification that implements a common process across all contracts at a contractor's plant. Listed below are some key steps that should be taken to facilitate the proper review and disposition of common process proposals submitted by contractors.

1. CONTRACTOR/CUSTOMER/CAO INTERFACE: The Contract Administration Office (CAO) acts as the primary industry interface, proactively informing contractors about the common process approach, and advising contractors how to prepare and submit initial concept papers and more detailed proposals, if necessary. The concept paper should include a cost/benefit analysis by the contractor, sufficient to identify the rough order of magnitude of the cost and technical impact of the proposed common process change on government contracts. Contractors should be encouraged to consider any common process approach that realizes a cost schedule or performance benefit for both the contractor and the Government. The CAO will notify the key customers when a contractor volunteers to participate in the process. The CAO shall request from the largest component customer in accordance with the Service issued guidance that an individual be designated as the component team leader. After the program office/buying activity identifies the component team leader, the CAO will notify all Service customers who that individual is.

2. CONCEPT PAPER/PROPOSAL REVIEW & EVALUATION: The CAO must perform a review of the adequacy and reasonableness of the contractor's concept paper and supporting cost/benefit analysis. The concept paper should outline the proposed process and planned transition approach. Technical feasibility, cost effectiveness, and program risk are elements that should be fully explored with the contractor.

The CAO should work closely with customer buying activity and program management office customers and the contractor during review. The intent is to expedite a review and determination by the ACO as to whether the change can be approved on a no cost, block change basis. In those instances where it is determined that significant cost savings will result, the ACO, in coordination with the customers, must determine the format and amount of detail required to be included in a more formal contractor proposal. Business judgement should be used to ascertain the required level of supporting documentation.

The proposal should be reviewed by a local team of CAO technical and cost specialists, the cognizant DCAA auditor and the key customers. The contractor should participate in this review and provide any necessary, additional supporting data concurrent with the review process.

3. TECHNICAL CONSIDERATIONS:

- (1) The common process should be sufficiently defined, structured, and documented to permit full evaluation. Customer buying activity programs that are affected in the various Service components or other defense/civilian agencies must be identified.

(2) Among other questions and issues that should be addressed during review of the contractor's proposal are:

(i) Will implementation of the common process be advantageous to the government? Does the common process encourage the use of advanced practices, eliminate nonvalue added requirements, eliminate redundant audits, reduce oversight cost, etc.?

(ii) How will the contractor demonstrate acceptability and reliability of the common process?

(iii) What is the impact on the government and contractor if the common process is approved/disapproved? Has a risk analysis been performed (The technical feasibility of the common process must be addressed in relation to the impact on such areas as quality, maintenance, and life cycle cost.)?

(iv) How will the contractor implement the common process? Will the change be phased in? How does the contractor propose to maintain quality, schedule, etc. during the transition?

(3) The kind and degree of technical review will vary with the complexity of the processes involved. Some process changes may not have a significant impact on quality, maintenance, performance, or life cycle cost. Other process change proposals will present a myriad of technical issues requiring in-depth review by contractor, DCMC, and buying activity personnel. Further, while some proposals may be readily adopted for all contracts on a facility-wide bases, other proposals may be suitable for the majority, but not all government contracts at a particular contractor facility.

For example, the proposed common process might involve the adoption of commercial packaging practices. Prior to approval on a facility-wide basis and modification of all government contracts, a technical review must confirm that there are no special packaging or packing requirements needed to satisfy cold weather storage, salt water exposure, or shelf-life expectancy, etc.

Other common process proposals may require an assessment by contractor, DCMC, and program office personnel of the impact on maintenance, supply availability, and associated costs to the government. Should a common process proposal, for example, introduce multiple variants of a component or system, the government would need some assurance that the contractor could produce sufficient, timely notification of correct configuration information for each variant, down to the piece part level. To the extent that a change introduces more parts, part numbers, or substitutes for original parts, an evaluation of the proposed change must consider whether there is sufficient technical documentation of the parts to permit the government to identify the proper application, and whether the government can properly control and adequately disseminate the information to ensure supportability. Also, the evaluation of some proposals will require an assessment of the need to train government personnel on the changes, and the associated training costs. These kinds of complex, technical issues will surface with greater frequency in situations where end product performance specifications are proposed as substitutes for multiple military specifications. On occasion, however, they may arise during the review of common process proposals submitted by contractors.

4. COST CONSIDERATIONS:

(1) Should the review indicate that the proposed change generates significant savings on an existing contract, consideration should be negotiated for the contract. If the resulting contract modification involves a price adjustment that exceeds the TINA threshold, certified cost and pricing data may be required per FAR 15.8. (The Commander, DCMC shall approve any ACO request for certified cost and pricing data, unless specifically required under TINA.)

(2) If the review reveals that the implementation cost is equal to the savings realized, or the savings are immaterial on existing contracts, a block modification may be used to implement the change at no cost to the Government. Consideration should be determined based on normal business judgment which could include the absolute dollar value, as well as the dollar value of savings as measured against the overall contractor sales base. Under some circumstances, consideration flowing to the Government may be other than monetary consideration. ACOs must apply good business judgement following a full review of each concept paper or proposal and the factors involved.

(3) In order to ensure the government realizes savings on future contracts and contract modifications, contractor proposals should address forward pricing rate reductions. The ACO and auditor should review the adequacy of the proposed rate reductions for use and incorporation in forward pricing rates.

(4) The overall objective should be to reduce the administrative burden as much as possible, yet still satisfy customer requirements. Once the ACO has selected the appropriate course of action (block changes, individual modifications or a combination of the two), the proposed actions should be presented to the Management Council for concurrence.

5. MANAGEMENT COUNCIL OVERSIGHT: The Management Council structure at each CAO will help to facilitate the review and disposition of common process proposals. The Council membership should include DCMC and DCAA representatives, as well as representatives from key customer buying activities. Generally, representation on the Council should account for at least 80 percent of the customer buying activity business base impacted by the process change. Upon reaching agreement at the Management Council level, any other buying activity/program management office customers must be advised of, and concur with, the process change.

DRAFT CHARTER
BLOCK CHANGE MANAGEMENT TEAM

RESPONSIBILITIES

1. Encourage contractors to submit change proposals .

The DoD letters direct the ACOs to encourage contractors to submit block changes. The team will be responsible for developing methods to facilitate early field office comprehension of the common process/block change policy and procedures because the first message needs to be consistent, consistently stated, and stated as quickly as possible. Specifics follow.

A. Develop a standard letter for ACOs to use in encouraging contractors to submit common process concept papers.

B. Develop a “road show” package for DCMC personnel (briefing charts, script, handouts, etc) that explain the DoD objective in the common/process block change policy, the purpose of block changes, the benefits to contractors, success stories from others who have already done it, the process, etc.

C. Develop mechanisms to enable ACOs to continue to spread the message and encourage submittals after the team’s departure.

2. Provide assistance to ACOs in processing/negotiating block changes.

A. Stand up “SWAT teams” that are capable of assisting ACOs in processing/negotiating block changes. SWAT teams should be teams of DCMC technical and business experts who can give advice or go on-site to assist in analysis and negotiations.

B. Facilitate interactions with customers to get approval for common processes and block changes.

C. Develop networks to enable ACOs to find assistance after SWAT teams are disestablished.

3. Refine guidelines for processing/negotiating block changes.

A. Amend/expand guidelines for processing/negotiating block changes as needed to respond to experiences and lessons learned.

B. Develop one book chapter for common process/block changes.

4. Keep DCMC Commander, OSD, and the SAEs informed of progress.

A. Develop and submit required reports to OSD. The DoD letter requires quarterly reporting of progress from the DCMC Commanders. Develop report format, put in place collection procedures for the field, gather data, and submit reports.

B. Submit “weeklies” (weekly status reports) to the SAEs. Reports should concentrate on the places where SAE involvement and encouragement would be worthwhile.

5. Monitor execution in field.

A. Keep in touch with CAOs to cheerlead, remove barriers, etc, but

B. Do not burden the field with extraneous reporting requirements.

6. Go out of business within 9 to 12 months.

A. Develop plan to institutionalize processing/negotiating block changes within DCMC.

B. Get plan approved and execute it.

MILESTONES

Develop standard letter	NLT 5 Jan
Develop road show	NLT 15 Jan
Do road shows	15 Jan - 15 Mar
Stand up SWAT teams	NLT 31 Dec
Develop reporting requirements	NLT 15 Jan
Rest TBD by team	

MEMBERS

Mr. Mike Vezeau (DCMC) — Lead	TBD (OSD)
Ms. Jane Curtis (DCMC)	TBD (Army)
Mr. Syd Pope (DCMC)	TBD (Navy)
Mr. Dave Robertson (DCMC)	TBD (Air Force)
Ms. Josephine Ross (DCMC)	TBD (DCAA)
Mr. Mike Dudley (DCMC)	TBD (DoD IG)
MAJ Jack Econom (DCMC)	TBD (DLA)
Ms. Pat Matura (DCMC)	

DCMC team members to round up TBD members. Also to augment with DCMC field personnel if necessary.